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SUBJECT: KOKA: TRAVELS SHOW NABUCCO POSSIBLE; LEADERSHIP
NEEDED

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Classified By: Political-Economic Counselor Eric Gaudiosi for reason 1.
5(d)

11. (SBU) Summary: Fresh from a trip to Turkey, Azerbaijan, and Turkmenistan, Economic Minister Janos Koka stressed the need to kick-start work on Nabucco, reviewed his plans to meet with European Energy Commissioner Piebalgs in Brussels on Thursday, November 29, and underscored the urgent need for leadership to shepherd this project through to completion. Absent this leadership, Koka fears the status quo of perceived adequate national petroleum income in Azerbaijan and Turkmenistan will lead to inaction. However, warm atmospherics suggest to him that possibilities remain, given continued U.S. interest and strong European leadership. Koka would like to host a very high-level Nabucco summit in Hungary in April 2008. MOL CEO Zsolt Hernadi accompanied Koka throughout the trip the week of November 19-23. End Summary.

Turkey on Board, at a Price

12. (C) In a November 26 readout to Ambassador Foley, Koka praised high-level engagement in Turkey from Energy Minister Guler, who hosted a major dinner for Koka and Hernadi, then accompanied them during their entire program, including meetings with pipeline company Botas. Energy security seemed to be the paramount Turkish concern, with the Turks wanting to retain 15 percent of the volume of gas from Nabucco flowing through Turkey. While Koka believes this is negotiable (5 percent counter-offer may be appropriate), ultimately he sees the issue as insignificant if Nabucco operates with sufficient volume. More importantly, Koka sees the public and private sectors in Turkey as ready and willing to go forward with Nabucco.

Azerbaijan has Ideas, Needs Partners

13. (C) In Baku, President Aliyev personally welcomed Koka, who felt as though he was one of the first European Nabucco senior government representatives to take this type of progress-oriented visit to this key country in some time. Significant access to Aliyev and all relevant ministers deeply impressed Koka, who sees the issue with Azerbaijan primarily as one of inadequate gas supply for Nabucco. Currently Azerbaijan appears to be exploiting enough of their reserves to meet their export (revenue) and domestic

consumption needs, with several obstacles that make dramatic increases in production unlikely in the short to medium terms. The maximum possible contribution to Nabucco is estimated at 10 billion cubic meters per year. Azerbaijan appears open to working with Nabucco, but doesn't want to be the only source. They are interested in the Trans-Caspian pipeline, connecting Turkmen off-shore fields with Azerbaijan's Shah Deniz, and possibly supplying Nabucco. With status quo output trends apparently adequate to meet existing GoA needs from a revenue perspective, Koka believes it will take real leadership to induce Azerbaijan to move beyond.

Turkmenistan: "No Conflict with Russia"

14. (C) As Hungary's first official visitor to Turkmenistan in 15 years, Koka reports extending the warm welcome into a nascent friendship with Turkmen president Berdimuhamedov, as each discussed their common background as medical doctors, and raising the possibility of a future visit focusing on hospitals. Hernadi helped keep the conversations focused on energy, and both Koka and Hernadi heard that perhaps the highest Turkmen goal was to avoid conflict with Russia, even as they remain very active in the energy market. With reported exports of 70 billion cubic meters of gas to Russia and China, and 10 million tons of oil to China, Iran, and Russia, reasons for the close relationship were obvious. Despite potential for more output, current revenues appear adequate for the government, and officials reported to Koka that Russia is against expansion of pipeline routes west from Turkmenistan.

15. (C) Despite their cautious tone, the Turkmen were "willing to sell to Europe if Europe can pick it up at the border - including offshore." Putin is evidently relying heavily on an environmental convention that Turkmenistan shares with Kazakhstan and Russia to block a possible Caspian pipeline. With Putin thus "very sensitive to environmental questions," the Turkmen would be disinclined to follow that path. One

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option would be for MOL to act as a contractor for Turkmen offshore fields, allowing MOL technically to be the forwarder of gas across the pipeline to Shah Deniz and onto Europe. Preliminary negotiations along these lines were welcomed. Especially in light of these discussions, Koka summed up Turkmenistan as cautious and willing to deal with Europe, but decidedly against any action that might offend Russia. As in Azerbaijan, Koka saw a "wide open playing field" in Turkmenistan, making now an excellent time to begin earnest engagement.

The Commission: Leadership Needed; Conflicting Signals

16. (C) Koka described the EU posture as "very disappointing," asking, "What is the Commission doing to speed up Nabucco?" He plans to address these issues head-on in a Thursday meeting with European Energy Commissioner Piebalgs, but cites EU Energy Rep Van Aartsen's unavailability for the meeting as a disappointing start. Koka has strong reservations about Van Aartsen, both for his support of Iran as a Nabucco partner and for his failure to follow through on his commitment to visit Turkmenistan with Koka. At the Piebalgs meeting, Koka plans to ask him to put together some sort of action plan on Nabucco before the project dies. Koka further believes that continued U.S. involvement is critical to move this along. He proposes a head-of-government-level summit in Budapest in April 2008, with Azerbaijan and Turkmenistan representation essential, along with all of the distribution countries. To be complete, Piebalgs "would have to be there," and Koka would also like to see Secretary Bodman attend as well.

(Note: In a separate conversation with the DCM November 27, both the PM's Chief of Staff and his Foreign and Security Policy Advisor confirmed that the GoH will be "happy to do anything to support the project," adding that "the sooner it

moves forward, the better for Hungary."

¶7. (C) Comment: We strongly agree with Koka that strong European leadership is the key to moving Nabucco forward. With Koka stepping down as Economy Minister this December - albeit to be replaced by current Chief of Staff Csaba Kakosy, it is unclear how much more he will be able to do as he focuses on his responsibilities as president of the SzDSz party. Minister Koka is keenly interested in speaking with DAS Bryza directly before his meetings in Brussels. We look forward to his readout on Piebalgs following his illuminating journey to key Nabucco partner countries. End comment.

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